THE SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMIEIS): STATUS REPORT FROM THE BANKING SECTOR

BY Ben Akabueze

Managing Director & Chief Executive
NAL BANK PLC
20, MARINA, LAGOS.

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1.0 Background and Concepts of SMIEIS

1.1 Background

- SMIEIS is a voluntary initiative of the Banker's Committee in support of the Federal Government's resolve to promote the Small and Medium Industries (SMI) as a vehicle for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation
- The goal is to reduce SMIs borrowings and consequently reduce the burden of interest payment and other bank charges.
- It espouses the provision of financial, advisory, technical and managerial support to SMIs by Banks.

1.2 Activities covered by SMIEIS

- Agro-allied
- Information technology and telecommunications
- Manufacturing
- Educational Establishments
- Services
- Tourism and Leisure
- Solid Minerals
- Construction, and
- Any other activity that may be determined from time to time by the Bankers' Committee



Banks can not invest SMIEIS funds in any entities whose principal business involves or comprises the manufacture or supply of, or any activities in:

- Tobacco and Tobacco products
- Armaments production or where 25% or more of the total production output or turnover of the investee company is derived from military-related purposes
- Beverages with alcoholic content exceeding 15%

1.3 Activities not covered by SMIEIS cont'd

- Casino or companies where the principal source of income is gambling
- Speculative investments in real estate or commodities
- Banking, insurance or financial services
- Immoral and illegal activities
- Investments that are harmful to the environment

1.4 Eligibility under the Scheme

- Enterprises with a maximum asset base of N200 million excluding land and working capital
- Enterprises with not less than 10 or more than 300 employees
- SMIs registered with Corporate Affairs Commission and in compliance with Companies and Allied Matters Act (1990) such as filing of annual returns and audited financial statements
- Those who comply with all applicable tax laws and regulations as well as render regular returns to the appropriate authorities.

1.4 Eligible SMIs cont'd

- SMIs engaging in approved businesses specified above
- Those prepared to ensure prudent utilisation of funds granted under SMIEIS.
- SMIs committed to keeping up-to-date records on the company's activities under the scheme
- Enterprises prepared to make the company's books, records and structures available for inspection by the appropriate authorities (including SMIEIS granting bank and the CBN) when required

1.4 Eligible SMIs cont'd

- SMIs who are prepared to comply with the guidelines of the scheme even after funds have been disbursed
- Enterprises ready to provide monthly financial and operational reports to the investing banks before the 15th of the succeeding month.

2.0 Status Report on SMIEIS

2.1 Administrative Structure

- The Bankers Committee has set up a Sub-Committee on SMIEIS as its technical and advisory arm
- Presidential Advisory Committee on SMIEIS include
 - Central Bank of Nigeria
 - Bankers' Committee
 - Presidency
 - Federal Ministry of Finance
 - Federal Ministry of Industry
 - Manufacturers Association of Nigeria
 - NACCIMA
 - NASSI
 - NIPC
- Agric Finance Department of the CBN hosts the Secretariat of the Committee

2.2 Modalities for Implementation

To safeguard the abuse of the scheme, the following modalities subsist:

- Funds invested by participating banks shall be in the form of equity investment in eligible industries
- Equity investment may be in the form of fresh cash injection and/or conversion of existing debts owed to participating banks
- A participating company may obtain more funds by way of loans from banks in addition to equity investment under the scheme

2.2 Modalities for Implementation cont'd

- Eligible industries may approach any bank, including those they presently have relationships with
- Banks may operate the scheme directly, through their wholly-owned subsidiary venture capital companies or through venture capital companies floated by consortia of banks
- Prospective beneficiaries should seek the opinion of third party consultants like lawyers, accountants and valuers in determining the value to be placed on the assets and capital of their businesses to enjoy a fair price before and during negotiations with banks

2.2 Modalities for Implementation cont'd

- The recommendations of industrial associations (particularly MAN, NACCIMA, NASME and NASSI) will be mandatory for members of these associations
- Membership of recognised NGOs engaged in entrepreneurial development and promotion of small scale industries will also be an advantage.

2.2 Modalities for Implementation Cont'd

- In implementing the scheme, banks have put in place various kinds of arrangements
 - Establishment of SMIEIS Desk
 - Formation of Consortia
 - 11 Banks entered into partnership to set up private equity; Project managed by SME managers
 - 6 other Banks have formed Venture Capital Mgt. Ltd.
 - Establishment of Venture Capital Subsidiary

2.2 Modalities for Implementation Cont'd

Bankers Committee

- As part of efforts to correct some of the observed anomaly in the Scheme, the Bankers Committee in August 2002, modified the operational guidelines as follows:
 - At least 60% of amount disbursed should go to core real sector
 - A maximum of 30% to services
 - Maximum of 10% to micro-enterprises through nongovernmental organisations (NGOs)

2.2 Modalities for Implementation Cont'd

Central Bank of Nigeria

- Since the inception of the scheme, CBN has organised enlightenment workshop in over 10 states of the Federation. Brochures are being Developed to enhance awareness/ understanding of the scheme
- Also training programmes conducted in different parts of the country

2.3 Performance of the Scheme

- As at Dec. 02, 80 Banks had pooled N13.1bn
- Only N1.9bn invested as at September, 02
- 39 Projects benefited
- 35 out of the 39 Projects located in Lagos (21 of them with Victoria Island address)
- Only one project has been implemented in each of Cross River, Anambra, Delta and Oyo States
- Only 21 Banks had invested in one or more projects

2.3 Performance cont'd

- Projects Supported were in the following areas:
 - Quarrying
 - Petroleum and Gas
 - Telecommunications
 - Advertising
 - Training and Manpower Development
- Sectoral Spread not achieved
 - As much as 75% of projects are in service sector

2.4 Impediments to Rapid Disbursement of SMIEIS Fund

- Knowledge/ skills gap
 - Equity investment is new to banks and require special skills
- Availability of Viable Projects
 - This arise from both weak packaging of projects and promoters' weak managerial skills, which make projects unattractive to banks
- Weak supporting infrastructure
 - Problems of epileptic power supply, poor communication, good access roads, scarcity of pipe borne water still contribute to high cost of business

2.4 Impediments to Rapid Disbursement of SMIEIS Fund Cont'd

- Administrative/ Implementation Structure
 - Many banks yet to set up SMIEIS desk/ finalise formation of venture companies
- Resistance by SMI operators
 - Issues of dilution of ownership and management, especially in family owned businesses
- Delays in the codification of fiscal incentives for Banks

3.0 Conclusion/ Way Forward

There is a need to address some of the limiting factors

- Capacity building/ Training support for SMEs
- Creating an enabling environment, especially supporting infrastructure
- Passing the enabling legislations to provide aggred fiscal incentive
- Provision of other support in terms of market access, subsidies and grants
- Franchising as a tool to develop viable projects

Thank you